

070000705

INSTRUMENT PREPARED BY
VIRGINIA GAS AND OIL BOARD

ORDER RECORDED UNDER CODE
OF VIRGINIA SECTION 45.1-361.26

V I R G I N I A:

BEFORE THE VIRGINIA GAS AND OIL BOARD

APPLICANT: **Appalachian Energy Inc.**) VIRGINIA GAS
) AND OIL BOARD
RELIEF SOUGHT: POOLING OF INTERESTS IN A 80.24)
ACRE SQUARE DRILLING UNIT) DOCKET NO.
DESCRIBED IN **EXHIBIT A** HERETO) **VGOB-06/08/15-1705**
LOCATED IN THE **Oakwood No.1** COAL BED)
GAS FIELD AND SERVED BY WELL NO.)
AE-166 (herein "Subject Drilling)
Unit") PURSUANT TO VA. CODE)
§§ 45.1-361.21 AND 45.1-361.22,)
FOR THE PRODUCTION OF OCCLUDED)
NATURAL GAS PRODUCED FROM COALBEDS)
AND ROCK STRATA ASSOCIATED)
THEREWITH (herein "Coalbed Methane)
Gas" or "Gas"))

LEGAL DESCRIPTION:

SUBJECT DRILLING UNIT SERVED BY WELL NUMBERED)
AE-166 (herein "Well") TO BE DRILLED IN)
THE LOCATION DEPICTED ON **EXHIBIT A** HERETO,)
Mattie Ratliff Duncan, Etal)
54.99 Acre Fee Tract)
Keen Mountain QUADRANGLE)
Garden MAGISTERIAL DISTRICT)
Buchanan COUNTY, VIRGINIA)
(the "Subject Lands" are more)
particularly described on **Exhibit A**,)
attached hereto and made a part hereof))

REPORT OF THE BOARD

FINDINGS AND ORDER

1. Hearing Date and Place: This matter came on for hearing before the Virginia Gas and Oil Board (hereafter "Board") at 9:00 a.m. on **August 15, 2006** Southwest Higher Education Center, Campus of Virginia Highlands Community College, Abingdon, Virginia.

2. Appearances: **James E. Kaiser of Wilhoit and Kaiser**, appeared for the Applicant.

3. Jurisdiction and Notice: Pursuant to Va. Code §§45.1-361.1 et seq., the Board finds that it has jurisdiction over the subject matter. Based upon the evidence presented by Applicant, the Board also finds that the Applicant has (1) exercised due diligence in conducting a meaningful search of reasonably available sources to determine the identity and whereabouts of each gas and oil owner, coal owner, or mineral owner and/or potential owner, i.e., person identified by Applicant as having ("Owner") or claiming ("Claimant") the rights to Coalbed Methane Gas, including all coalbeds and coal seams below the Tiller seam including but not limited to the Jawbone, Upper Seaboard, Greasy Creek, Middle Seaboard, Lower Seaboard, Upper Horsepen, Middle Horsepen, War Creek, Lower Horsepen, Pocahontas Nos.9, 8, 6, 5, 4, 3, 2, 1, and various unnamed coal seams, coalbeds and rock strata associated therewith **Oakwood No.1** (hereafter "Subject Formations") in the Subject Drilling Unit underlying and comprised of Subject Lands; (2) represented it has given notice

to those parties so identified (hereafter sometimes "person(s)" whether referring to individuals, corporations, partnerships, associations, companies, businesses, trusts, joint ventures or other legal entities) entitled by Va. Code §§ 45.1-361.19 and 45.1-361.22, to notice of the application filed herein; and (3) that the persons set forth in **Exhibit B-3** hereto have been identified by Applicant as persons who may be Owners or Claimants of Coalbed Methane Gas interests in Subject Formations in the Subject Drilling Unit who have not heretofore agreed to lease or sell to the Applicant and/or voluntarily pool their Gas interests. Conflicting Gas Owners/Claimants in Subject Drilling Unit are listed on **Exhibit E**. Further, the Board has caused notice of this hearing to be published as required by Va. Code § 45.1-361.19.B. Whereupon, the Board hereby finds that the notices given herein satisfy all statutory requirements, Board rule requirements and the minimum standards of state due process.

4. Amendments: **None.**

5. Dismissals: **None.**

6. Relief Requested: Applicant requests (1) that pursuant to Va. Code § 45.1-361.22, including the applicable portions of § 45.1-361.21, the Board pool the rights, interests and estates in and to the Gas in the Subject Drilling Unit, including those of the Applicant and of the known and unknown persons named in **Exhibit B-3** hereto and that of their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, for the drilling and operation, including production, of Coalbed Methane Gas produced from the Subject Drilling Unit established for the Subject Formations underlying and comprised of the Subject Lands, (hereafter sometimes collectively identified and referred to as "well development and/or operation in the Subject Drilling Unit"); and, (2) that the Board designate **Appalachian Energy Inc.** as the Unit Operator.

7. Relief Granted: The requested relief in this cause shall be and hereby is granted and: (1) pursuant to Va. Code § 45.1-361.21.C.3, **Appalachian Energy Inc.** (hereafter "Unit Operator" or "Operator") is designated as the Unit Operator authorized to drill and operate the Well in Subject Drilling Unit at the location depicted on the plat attached hereto as **Exhibit A**, subject to the permit provisions contained in Va. Code § 45.1-361.27, et seq.; to §§ 4 VAC 25-150 et seq., Gas and Oil Regulations; to § 4 VAC 25-160 et seq., Virginia Gas and Oil Board Regulations and to the Oakwood No. 1 Coal Bed Gas Field Rules established by the Oil and Gas Conservation Board's Order entered March 26, 1989; all as amended from time to time; and (2) all the interests and estates in and to the Gas in Subject Drilling Unit, including that of the Applicant, the Unit Operator and of the known and unknown persons listed on **Exhibit B-3**, attached hereto and made a part hereof, and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, be and hereby are pooled in the Subject Formations in the Subject Formation in the Subject Drilling Unit underlying and comprised of the Subject Lands.

Pursuant to the Oakwood No. 1 Coal Field Rules promulgated under the authority of Va. Code § 45.1-361.20, the Board has adopted the following method for the calculation of production and revenue and allocation of allowable costs for the production of Coalbed Methane Gas.

For Frac Well Gas. - Gas shall be produced from and allocated to only the 80.24 acre drilling unit in which the well is located according to the undivided interests of each Owner/Claimant within the unit, which undivided interest shall be the ratio (expressed as a percentage) that the amount of mineral acreage within each separate tract that is within the Subject Drilling Unit, when platted on the surface, bears to the

total mineral acreage, when platted on the surface, contained within the entire 80.24-acre drilling unit in the manner set forth in the Oakwood No. 1 Field Rules.

8. Election and Election Period: In the event any Owner or Claimant named in **Exhibit B-3** has not reached a voluntary agreement to share in the operation of the Well to be located in Subject Drilling Unit, at a rate of payment mutually agreed to by said Gas Owner or Claimant and the Applicant or the Unit Operator, then such person may elect one of the options set forth in Paragraph 9 below and must give written notice of his election of the option selected under Paragraph 9 herein to the designated Unit Operator at the address shown below within thirty (30) days from the date of receipt of a copy of this Order. A timely election shall be deemed to have been made if, on or before the last day of said 30-day period, such electing person has delivered his written election to the designated Unit Operator at the address shown below or has duly postmarked and placed his written election in first class United States mail, postage prepaid, addressed to the Unit Operator at the address shown below.

9. Election Options:

9.1 Option 1 - To Participate In The Development and Operation of the Drilling Unit: Any Gas Owner or Claimant named in **Exhibit B-3** who has not reached a voluntary agreement with the Applicant or Unit Operator may elect to participate in the Well development and operation in the Subject Drilling Unit (hereafter "Participating Operator") by agreeing to pay the estimate of such Participating Operator's proportionate part of the actual and reasonable costs, including a reasonable supervision fee, of the Well development and operation in the Subject Drilling Unit, as more particularly set forth in Virginia Gas and Oil Board Regulation 4 VAC 25-160-100 (herein "Completed for Production Costs"). Further, a Participating Operator agrees to pay the estimate of such Participating Operator's proportionate part of the Estimated, Completed-for-Production Costs as set forth below to the Unit Operator within forty-five (45) days from the later of the date of mailing or the date of recording of this Order. The estimated Completed-for-Production Costs for the Subject Drilling Unit are as follows:

Completed-for-Production Costs: **\$352,468.00**

Any gas owner and/or claimants named in **Exhibit B-3**, who elect this option (Option 1) understand and agree that their initial payment under this option is for their proportionate share of the Applicant's estimate of actual costs and expenses. It is also understood by all persons electing this option that they are agreeing to pay their proportionate share of the actual costs and expenses as determined by the operator named in this Board Order.

A Participating Operator's proportionate cost hereunder shall be the result obtained by multiplying the Participating Operator's "Interest within Unit" as set forth herein in the attached **Exhibit B-3** times the Estimated Completed-for-Production Costs set forth above. Provided, however, that in the event a Participating Operator elects to participate and fails or refuses to pay the estimate of his proportionate part of the Estimated, Completed-for-Production Costs as set forth above, all within the time set forth herein and in the manner prescribed in Paragraph 8 of this Order, then such Participating Operator shall be deemed to have elected not to participate and to have elected compensation in

lieu of participation pursuant to Paragraph 9.2 herein.

- 9.2 Option 2 - To Receive A Cash Bonus Consideration: In lieu of participating in the Well development and operation in Subject Drilling Unit under Paragraph 9.1 above, any Gas Owner or Claimant named in **Exhibit B-3** hereto who has not reached a voluntary agreement with the Unit Operator may elect to accept a cash bonus consideration of **\$5.00** per net mineral acre owned by such person, commencing upon entry of this Order and continuing annually until commencement of production from Subject Drilling Unit, and thereafter a royalty of 1/8th of 8/8ths [twelve and one-half percent (12.5%)] of the net proceeds received by the Unit Operator for the sale of the Gas produced from any Well development and operation covered by this Order multiplied by that person's Interest Within Unit as set forth in **Exhibit B-3** [for purposes of this Order, net proceeds shall be actual proceeds received less post-production costs incurred downstream of the wellhead, including, but not limited to, gathering, compression, treating, transportation and marketing costs, whether performed by Unit Operator or a third person] as fair, reasonable and equitable compensation to be paid to said Gas Owner or Claimant. The initial cash bonus shall become due and owing when so elected and shall be tendered, paid or escrowed within one hundred twenty (120) days of recording of this Order. Thereafter, annual cash bonuses, if any, shall become due and owing on each anniversary of the date of recording of this order in the event production from Subject Drilling Unit has not theretofore commenced, and once due, shall be tendered, paid or escrowed within sixty (60) days of said anniversary date. Once the initial cash bonus and the annual cash bonuses, if any, are so paid or escrowed, said payment(s) shall be satisfaction in full for the right, interests, and claims of such electing person in and to the Gas produced from Subject Formation in the Subject Lands, except, however, for the 1/8th royalties due hereunder.

Subject to a final legal determination of ownership, the election made under this Paragraph 9.2, when so made, shall be satisfaction in full for the right, interests, and claims of such electing person in any well development and operation covered hereby and such electing person shall be deemed to have and hereby does assign its right, interests, and claims in and to the Gas produced from Subject Formation in the Subject Drilling Unit to the Applicant.

- 9.3. Option 3 - To Share In The Development And Operation As A Non-Participating Person On A Carried Basis And To Receive Consideration In Lieu Of Cash: In lieu of participating in the Well development and operation of Subject Drilling Unit under Paragraph 9.1 above and in lieu of receiving a cash bonus consideration under Paragraph 9.2 above, any Gas Owner or Claimant named in **Exhibit B-3** who has not reached a voluntary agreement with the Unit Operator may elect to share in the well development and operation in Subject Drilling Unit on a carried basis (as a "Carried Well Operator") so that the proportionate part of the Completed-for-Production Costs hereby allocable to such Carried Well Operator's interest is charged against such Carried Well Operator's share of production from Subject Drilling Unit. Such Carried Well Operator's rights, interests, and claims in and to the Gas in Subject Drilling Unit shall be deemed and hereby are assigned to the Unit Operator until the proceeds from the sale of such Carried Well Operator's share of production from Subject Drilling Unit (exclusive of any royalty, excess or overriding

royalty, or other non-operating or non cost-bearing burden reserved in any lease, assignment thereof or agreement relating thereto covering such interest) equals three hundred percent (300%) for a leased interest or two hundred percent (200%) for an unleased interest (whichever is applicable) of such Carried Well Operator's share of the Completed-for-Production Costs allocable to the interest of such Carried Well Operator. Any Gas Owner and/or Claimant named in **Exhibit B-3** who elects this option (Option 3) understands and agrees that Completed-for-Production Costs are the Operator's actual costs for well development and operation. When the Unit Operator recoups and recovers from such Carried Well Operator's assigned interest the amounts provided for above, then, the assigned interest of such Carried Well Operator shall automatically revert back to such Carried Well Operator, and from and after such reversion, such Carried Well Operator shall be treated as if it had participated initially under Paragraph 9.1 above; and thereafter, such participating person shall be charged with and shall pay his proportionate part of all further costs of such well development and operation. Subject to a final legal determination of ownership, the election made under this Paragraph 9.3, when so made, shall be satisfaction in full for the right, interests, and claims of such electing person in any Well development and operation covered hereby and such electing person shall be deemed to have and hereby does assign his right, interests, and claims in and to the Gas produced from Subject Formation in the Subject Drilling Unit to the Applicant for the period of time during which its interest is carried as above provided prior to its reversion back to such electing person.

10. Failure to Properly Elect: In the event a person named in **Exhibit B-3** hereto has not reached a voluntary agreement with the Applicant or Unit Operator and fails to elect within the time, in the manner, and in accordance with the terms of this Order, one of the alternatives set forth in Paragraph 9 above for which his interest qualifies, then such person shall be deemed to have elected not to participate in the proposed Well development and operation in Subject Drilling Unit and shall be deemed, subject to any final legal determination of ownership, to have elected to accept as satisfaction in full for such person's right, interests, and claims in and to the Gas the consideration provided in Paragraph 9.2 above for which its interest qualifies, and shall be deemed to have leased and/or assigned his right, interests, and claims in and to said Gas produced from Subject Formation in Subject Drilling Unit to the Unit Operator. Persons who fail to properly elect shall be deemed to have accepted the compensation and terms set forth herein at Paragraph 9.2 in satisfaction in full for the right, interests, and claims of such person in and to the Gas produced from Subject Formation underlying Subject Lands.

11. Default By Participating Person: In the event a person named in **Exhibit B-3** elects to participate under Paragraph 9.1, but fails or refuses to pay, to secure the payment or to make an arrangement with the Unit Operator for the payment of such person's proportionate part of the estimated Completed-for-Production costs as set forth herein, all within the time and in the manner as prescribed in this Order, then such person shall be deemed to have withdrawn his election to participate and shall be deemed to have elected to accept as satisfaction in full for such person's right, interests, and claims in and to the Gas the consideration provided in Paragraph 9.2 above for which his interest qualifies depending on the excess burdens attached to such interest. Whereupon, any cash bonus consideration due as a result of such deemed election shall be tendered, paid or escrowed by Unit Operator within

one hundred twenty (120) days after the last day on which such defaulting person under this Order should have paid his proportionate part of such cost or should have made satisfactory arrangements for the payment thereof. When such cash bonus consideration is paid or escrowed, it shall be satisfaction in full for the right, interests, and claims of such person in and to the Gas underlying Subject Drilling Unit in the Subject Lands covered hereby, except, however, for any 1/8th royalties which would become due pursuant to Paragraph 9.2 hereof.

12. Assignment of Interest: In the event a person named in **Exhibit B-3** is unable to reach a voluntary agreement to share in the Well development and operation in Subject Drilling Unit at a rate of payment agreed to mutually by said Gas Owner or Claimant and the Unit Operator, and said person elects or fails to elect to do other than participate under Paragraph 9.1 above in the Well development and operation in Subject Drilling Unit, then such person shall be deemed to have and shall have assigned unto Unit Operator such person's right, interests, and claims in and to said Well, in Subject Formations in Subject Drilling Unit, and other share in and to Gas production to which such person may be entitled by reason of any election or deemed election hereunder in accordance with the provisions of this Order governing said elections.

13. Unit Operator (or Operator): **Appalachian Energy Inc.** shall be and hereby is designated as Unit Operator authorized to drill and operate the Well(s) in Subject Formations in Subject Drilling Unit, all subject to the permit provisions contained in Va. Code §§ 45.1-361.27 et seq.; §§ 4 VAC 25-150 et seq., Gas and Oil Regulations; §§ 4 VAC 25-160 et seq., Virginia Gas and Oil Board Regulations; Oil and Gas Conservation Board ("OGCB") Order establishing the Oakwood No. 1 Coal Bed Gas Field Rules entered March 26, 1989; all as amended from time to time, and all elections required by this Order shall be communicated to Unit Operator in writing at the address shown below:

Appalachian Energy Inc.
P.O. Box 2406
Abingdon, Virginia 24212-2406
Phone: (276) 619-4880
Attn: Frank Henderson

14. Commencement of Operations: Unit Operator shall commence or cause to commence operations for the drilling of the Well within Subject Drilling Unit within seven hundred thirty (730) days from the date of this Order, and shall prosecute the same with due diligence. If the Unit Operator has not so commenced and/or prosecuted, then this order shall terminate, except for any cash sums then payable hereunder; otherwise, unless sooner terminated by Order of the Board, this Order shall expire at 12:00 p.m. on the date on which the well covered by this Order is permanently abandoned and plugged. However, in the even at an appeal is taken from this Order, then the time between the filing of the Petition for Appeal and the Final Order of the Circuit Court shall be excluded in calculating the two-year period referenced herein.

15. Operator's Lien: Unit Operator, in addition to the other rights afforded hereunder, shall have a lien and a right of set off on the Gas estates, rights, and interests owned by any person subject hereto who elects to participate under Paragraph 9.1 in the Subject Drilling Unit to the extent that costs incurred in the drilling or operation on the Subject Drilling Unit are a charge against such person's interest. Such liens and right of set off shall be separable as to each separate person and shall remain liens until the Unit Operator drilling or operating the Well(s) has been paid the full amounts due under the terms of this Order.

16. Escrow Provisions:

The Applicant represented to the Board that there **are no** unknown or unlocatable claimants in Subject Drilling Unit whose payments are subject to the provisions of Paragraph 16.1 hereof in the Subject Drilling Unit; and, the Unit Operator has represented to the Board that there **are** conflicting claimants in the Subject Drilling Unit whose payments are subject to the provisions of Paragraph 16.2 hereof. Therefore, by this Order, the Escrow Agent named herein or any successor named by the Board, **is** required to establish an interest-bearing escrow account for the Subject Drilling Unit (herein "Escrow Account"), and to receive and account to the Board pursuant to its agreement for the escrowed funds hereafter described in Paragraphs 16.1 and 16.2:

**Wachovia Bank
Corporate Trust PA1328
123 South Broad Street
Philadelphia, PA 19109-1199
Attention: Rachel Rafferty**

- 16.1. Escrow Provisions For Unknown or Unlocatable Persons: If any payment of bonus, royalty payment or other payment due and owing under this Order cannot be made because the person entitled thereto cannot be located or is unknown, then such cash bonus, royalty payment, or other payment shall not be commingled with any funds of the Unit Operator and, pursuant to Va. Code § 45.1-361.21.D, said sums shall be deposited by the Unit Operator into the Escrow Account, commencing within one hundred twenty (120) days of recording of this Order, and continuing thereafter on a monthly basis with each deposit to be made, by use of a report format approved by the Inspector, by a date which is no later than sixty (60) days after the last day of the month being reported and/or for which funds are being deposited. Such funds shall be held for the exclusive use of, and sole benefit of the person entitled thereto until such funds can be paid to such person(s) or until the Escrow Agent relinquishes such funds as required by law or pursuant to Order of the Board in accordance with Va. Code § 45.1-361.21.D.
- 16.2 Escrow Provisions For Conflicting Claimants: If any payment of bonus, royalty payment, proceeds in excess of ongoing operational expenses, or other payment due and owing under this Order cannot be made because the person entitled thereto cannot be made certain due to conflicting claims of ownership and/or a defect or cloud on the title, then such cash bonus, royalty payment, proceeds in excess of ongoing operational expenses, or other payment, together with Participating Operator's Proportionate Costs paid to Unit Operator pursuant to Paragraph 9.1 hereof, if any, (1) shall not be commingled with any funds of the Unit Operator; and (2) shall, pursuant to Va. Code §§ 45.1-361.22.A.2, 45.1-361.22.A.3 and 45.1-361.22.A.4, be deposited by the Operator into the Escrow Account within one hundred twenty (120) days of recording of this Order, and continuing thereafter on a monthly basis with each deposit to be made by a date which is no later than sixty (60) days after the last day of the month being reported and/or for which funds are subject to deposit. Such funds shall be held for the exclusive use of, and

sole benefit of, the person entitled thereto until such funds can be paid to such person(s) or until the Escrow Agent relinquishes such funds as required by law or pursuant to Order of the Board.

17. Special Findings: The Board specifically and specially finds:

17.1. Applicant is **Appalachian Energy Inc.** Applicant is duly authorized and qualified to transact business in the Commonwealth of Virginia;

17.2. Applicant **Appalachian Energy Inc.** has made a delegation of authority to **Appalachian Energy Inc.** to explore, develop and maintain the properties and assets of Applicant, now owned or hereafter acquired, and **Appalachian Energy Inc.** has accepted this delegation of authority and agreed to explore, develop and maintain those properties and assets, and has consented to serve as Coalbed Methane Gas Unit Operator for Subject Drilling Unit and to faithfully discharge the duties imposed upon it as Unit Operator by statute and regulations;

17.3. Applicant **Appalachian Energy Inc.** is an operator in the Commonwealth of Virginia, and has satisfied the Board's requirements for operations in Virginia;

17.4 Applicant **Appalachian Energy Inc.** claims ownership of gas leases, Coalbed Methane Gas leases, and/or coal leases representing **89.24%** percent of the oil and gas interest/claims in and to Coalbed Methane Gas and **90.02%** percent of the coal interest/claims in and to Coalbed Methane Gas in Subject Drilling Unit; and, Applicant claims the right to explore for, develop and produce Coalbed Methane Gas from Subject Formations in Subject Drilling Unit in Buchanan County, Virginia, which Subject Lands are more particularly described in **Exhibit A**;

17.5. The estimated total production from Subject Drilling Unit is **250 MMCG**. The estimated amount of reserves from the Subject Drilling Unit is **250 MMCG**;

17.6. Set forth in **Exhibit B-3**, is the name and last known address of each Owner or Claimant identified by the Applicant as having or claiming an interest in the Coalbed Methane Gas in Subject Formation in Subject Drilling Unit underlying and comprised of Subject Lands, who has not, in writing, leased to the Applicant or the Unit Operator or agreed to voluntarily pool his interests in Subject Drilling Unit for its development. The interests of the Respondents listed in **Exhibit B-3** comprise **10.76%** percent of the oil and gas interests/claims in and to Coalbed Methane Gas and **9.98%** percent of the coal interests/claims in and to Coalbed Methane Gas in Subject Drilling Unit;

17.7 Applicant's evidence established that the fair, reasonable and equitable compensation to be paid to any person in lieu of the right to participate in the Wells are those options provided in

Paragraph 9 above;

17.8 The relief requested and granted is just and reasonable, is supported by substantial evidence and will afford each person listed and named in **Exhibit B-3** hereto the opportunity to recover or receive, without unnecessary expense, such person's just and fair share of the production from Subject Drilling Unit. The granting of the Application and relief requested therein will ensure to the extent possible the greatest ultimate recovery of Coalbed Methane Gas, prevent or assist in preventing the various types of waste prohibited by statute and protect or assist in protecting the correlative rights of all persons in the subject common sources of supply in the Subject Lands. Therefore, the Board is entering an Order granting the relief herein set forth.

18. Mailing Of Order And Filing Of Affidavit: Applicant or its Attorney shall file an affidavit with the Secretary of the Board within sixty (60) days after the date of recording of this Order stating that a true and correct copy of said Order was mailed within seven (7) days from the date of its receipt by Unit Operator to each Respondent named in **Exhibit B-3** pooled by this Order and whose address is known.

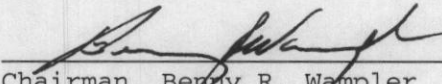
19. Availability of Unit Records: The Director shall provide all persons not subject to a lease with reasonable access to all records for Subject Drilling Unit which are submitted by the Unit Operator to said Director and/or his Inspector(s).

20. Conclusion: Therefore, the requested relief and all terms and provisions set forth above be and hereby are granted and IT IS SO ORDERED.

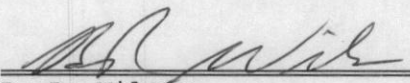
21. Appeals: Appeals of this Order are governed by the provisions of Va. Code Ann. § 45.1-361.9 which provides that any order or decision of the Board may be appealed to the appropriate circuit court.

22. Effective Date: This Order shall be effective as of the date of the Board's approval of this Application, which is set forth at Paragraph 1 above.

DONE AND EXECUTED this 23rd day of February, 2007, by a majority of the Virginia Gas and Oil Board.


Chairman, Benny R. Wampler

DONE AND PERFORMED this 24th day of February, 2007, by Order of this Board.


B. R. Wilson
Principal Executive To The Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA)
COUNTY OF WASHINGTON)

Acknowledged on this 23rd day of February, 2007, personally before me a notary public in and for the Commonwealth of Virginia, appeared Benny Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.

Susan A. Luvett

Notary Public

My commission expires: 12-31-2010

STATE OF VIRGINIA)
COUNTY OF WASHINGTON)

Acknowledged on this 26th day of February, 2007, personally before me a notary public in and for the Commonwealth of Virginia, appeared B. R. Wilson, being duly sworn did depose and say that he is Principal Executive to the Staff of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.

Diane J. Davis

Notary Public

My commission expires: 9-30-09

TOTAL UNIT AREA

=80.24 ACRES

- DENOTES MINERAL LINE
- DENOTES SURFACE LINE
- DENOTES SURFACE & MINERAL LINES

LATITUDE 37°15'00"

The actual location of the drilled well will be within ten (10) feet of the location shown hereon as provided for by 4 VAC 25-150-290 and 45.1-361.30.

STATE PLANE
NAD 27 COORDINATES

OF WELL AE-166
N 350450.94
E 1009023.52

CCC COORDINATES
OF WELL AE-166

N 53468.97
E 139470.94

PROPOSED
AE-167

1020.50'

AE-166

JO ANN WHITT, et al
FEE
GAS 3.40 AC. 4.24%

JO ANN WHITT, et al
FEE
GAS 2.88 AC. 3.59%

BRUCE RATLIFF, et al
FEE
GAS 1.11 AC. 1.38%

COORDINATES
OF BENCH MARK
N 48859.71
E 75916.33
ELEV. = 2302.85

NOTE !!!

WELL COORDINATES ARE BASED ON CLINCHFIELD
COAL COMPANY'S COORDINATE SYSTEM

CLINCHFIELD COAL COMPANY COORDINATES ARE
CALCULATED FROM STATE PLANE WELL COORDINATES.

PROPERTY INFORMATION PROVIDED BY APPALACHIAN
ENERGY, INC.

ELEVATIONS ARE BASED ON NGS CONTROL CINDY AZ MK.

UNIT

BOUNDARY

MATTIE RATLIFF DUNCAN, et al
FEE
GAS 54.99 AC. 68.53%

CAROLINE COLE GREGORY ESTATE
FEE
GAS 11.41 AC. 14.22%

F.G. COLE, et al
FEE
GAS 4.84 AC. 6.03%

PROPOSED
AE-153
HAROLD H. FULLER, Jr. et ux
FEE (Minus Jawbone)
GAS 1.61 AC. 2.01%

ERIC W. PRICE
No. 2499

LAND SURVEYOR

WELL LOCATION PLAT

COMPANY Appalachian Energy, Inc.

WELL NAME AND NUMBER

AE-166

TRACT No. MATTIE RATLIFF DUNCAN, ET AL ELEVATION 2196.77' (GPS)

QUADRANGLE KEEN MOUNTAIN

COUNTY BUCHANAN

DISTRICT GARDEN

SCALE: 1" = 400'

DATE JULY 7, 2006

THIS PLAT IS A NEW PLAT x; AN UPDATED PLAT ; OR A FINAL LOCATION PLAT

PROPOSED TOTAL DEPTH OF WELL = 1902'

+ DENOTES THE LOCATION OF A WELL ON UNITED STATES TOPOGRAPHIC MAPS, SCALE 1 TO 24,000, LATITUDE AND LONGITUDE LINES BEING REPRESENTED BY BORDER LINES AS SHOWN.

LICENSED PROFESSIONAL ENGINEER OR LICENSED LAND SURVEYOR

(AFFIX SEAL)

Exhibit B-3
AE-166

TRACT	LESSOR	LEASE STATUS	INTEREST WITHIN UNIT	GROSS ACREAGE IN UNIT
<u>Oil & Gas Estate</u>				
2	Edith G. Street P.O. Box 792 Grundy, VA 24614	Unleased	0.790%	0.6339
	Timothy McDonald P.O. Box 609 Prestonsburg, KY 41653	Unleased	0.316%	0.2536
	Tamala Williams P.O. Box 82 Roaring Gap, NC 28668	Unleased	0.316%	0.2536
	Gregory B. McDonald P.O. Box 727 Prestonsburg, KY 41653	Unleased	0.316%	0.2536
	Greta Meek 177 Colvin Branch Oil Springs, KY 41238	Unleased	0.316%	0.2536
	Byrd William McDonald 513 NW 13th St. Suite 202 Portland, OR 97209	Unleased	0.316%	0.2536
	Thurman Cooper 314 Mary Street, Apt. 22 Bristol, VA 24201	Unleased	0.176%	0.1409
	Rebecca Cooper P.O. Box 314 Hurley, VA 24620	Unleased	0.059%	0.0470
	Melanie D. Cooper P.O. Box 314 Hurley, VA 24620	Unleased	0.039%	0.0313
	Corey S. Cooper P.O. Box 314 Hurley, VA 24620	Unleased	0.039%	0.0313
	Byron D. Cooper P.O. Box 314 Hurley, VA 24620	Unleased	0.039%	0.0313
3	Fulton Henry Cole HC 66 Box 90 Whitewood, VA 24657	Unleased	6.03%	4.8400

Exhibit B-3
AE-166

TRACT	LESSOR	LEASE STATUS	INTEREST WITHIN UNIT	GROSS ACREAGE IN UNIT
4	Harold H. Fuller, Jr. HC 67 Box 84 Oakwood, VA 24631	Unleased	2.01%	1.6100
<hr/> Total Percentage Unleased Gas Estate			10.76%	
Total Acreage Unleased Gas Estate				8.63
<u>Coal Estate</u>				
2	Timothy McDonald P.O. Box 609 Prestonsburg, KY 41653	Unleased	0.316%	0.2536
	Tamala Williams P.O. Box 82 Roaring Gap, NC 28668	Unleased	0.316%	0.2536
	Gregory B. McDonald P.O. Box 727 Prestonsburg, KY 41653	Unleased	0.316%	0.2536
	Greta Meek 177 Colvin Branch Oil Springs, KY 41238	Unleased	0.316%	0.2536
	Byrd William McDonald 513 NW 13th St. Suite 202 Portland, OR 97209	Unleased	0.316%	0.2536
	Thurman Cooper 314 Mary Street, Apt. 22 Bristol, VA 24201	Unleased	0.176%	0.1409
	Rebecca Cooper P.O. Box 314 Hurley, VA 24620	Unleased	0.059%	0.0470
	Melanie D. Cooper P.O. Box 314 Hurley, VA 24620	Unleased	0.039%	0.0313
	Corey S. Cooper P.O. Box 314 Hurley, VA 24620	Unleased	0.039%	0.0313

Exhibit B-3
AE-166

<u>TRACT</u>	<u>LESSOR</u>	<u>LEASE STATUS</u>	<u>INTEREST WITHIN UNIT</u>	<u>GROSS ACREAGE IN UNIT</u>
2	Byron D. Cooper P.O. Box 314 Hurley, VA 24620	Unleased	0.039%	0.0313
3	Fulton Henry Cole HC 66 Box 90 Whitewood, VA 24657	Unleased	6.03%	4.8400
4	Harold H. Fuller, Jr. HC 67 Box 84 Oakwood, VA 24631	Unleased	2.01%	1.6100
<hr/> Total Percentage Unleased Coal Estate			9.98%	
Total Acreage Unleased Coal Estate				8.00

Exhibit E
AE-166

TRACT	LESSOR	LEASE STATUS	INTEREST WITHIN UNIT	GROSS ACREAGE IN UNIT
<u>Gas Estate</u>				
2	Edith G. Street P.O. Box 792 Grundy, VA 24614	Unleased	0.790%	0.6339
	Martha Combs c/o A.G. Edwards & Co. P.O. Box 1199 Bluefield, VA 24605-4199	Leased	0.263%	0.2113
	Fred H. Combs Testamentary Trust c/o Kelly Necessary - Trustee P.O. Box 841 Tazewell, VA 24651 and Elene Combs 318 East Fincastle Tazewell, VA 24651	Leased	0.263%	0.2113
	Carol Irvine 4710 Hunterwood Circle Richmond, TX 77469-7635	Leased	0.263%	0.2113
<u>Coal Estate</u>				
2	Island Creek Coal Company Drawer L Oakwood, VA 24631	Leased	1.580%	1.2677

VIRGINIA: In the Clerk's Office of the Circuit Court of Buchanan County. The foregoing instrument was this day presented in the office aforesaid and is, together with the certificate of acknowledgment annexed, admitted to record this 24 day of February, 2007 12:29P M.
Deed Book No. _____ and Page No. _____.
Returned to: Shirley S. Jiles TESTE: Shirley S. Jiles ~~Shirley S. Jiles~~ Clerk

#07-705